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Market Orientation, Ambidexterity and Performance Outcomes

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Abstract

This study aims to discuss the relation between market orientation and innovation strategies from an ambidexterity perspective. First, defining ambidexterity as simultaneous pursuit of exploitative and explorative innovation strategies, we argue the role of market orientation with responsive and proactive dimensions as an antecedent of both exploitative and explorative innovation strategies. Secondly, we discuss the joint effects of both strategy types on firm performance. We develop several propositions and recommend that a total market orientation can facilitate firms to realize their organizational ambidexterity. Lastly, implications for further research and managerial suggestions are highlighted.

Keywords: Market orientation, Innovation strategies, Ambidexterity

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1. Introduction

In today's dynamic and hyper-competitive business world firms must understand and respond to the needs of their existing markets and customers besides they must also discover and adapt to the emerging markets and their customers' changing needs. To realize this they should not only exploit existing products or services and their current competences, but also explore new ideas or processes and develop new products or services [1]. However, exploitation and exploration are two different types of learning activities between which firms divide attention and resources [2]. Exploitation includes such things as refinement, choice, production, efficiency and implementation whereas exploration includes things such as search, variation, risk taking, flexibility and discover [3]. Moreover exploitation and exploration require fundamentally different types of structures, processes, strategies, capabilities and culture to pursue [2], [4], [5], [6], [7] and their impacts on business performance and returns from these two options vary in terms of their expected values, variability and their timing [3].

Many researchers assert that there is a tradeoff between aligning the organization to exploit existing competences and exploring new ones [4], [6], [3], [8], [9]. According to March "both exploitation and exploration are essential for the organizations, but they compete for scarce resources" [3]. He also stated that organizations make explicit and implicit choices between exploitation and exploration. Levinthal and March argue that an organization that engages solely in exploration never gains the returns of its knowledge whereas an organization engages solely in exploitation experiences obsolescence and both will suffer [8]. They proposed that to ensure its current and future viability at the same time, an organization should engage in sufficient exploitation and exploration in a balanced manner. Thus, many scholars suggested that successful organizations must be ambidextrous –aligned and efficient in their today's business while also adaptive enough to changes in the environment [10], [11], [12].

In the organization literature the concept of ambidexterity is generally used to refer to an organization's ability to pursue two contradictory things at the same time. For example Tushman and O'Reilly defined ambidexterity as the concurrent realization of radical and incremental change [11]. Gibson and Birkinshaw defined it being aligned and adaptive at the same time [12]. He and Wong assumed ambidexterity as the ability to pursue exploitation and exploration innovation strategies simultaneously [2]. While definitions to ambidexterity concept vary, many researchers discuss the relation between business performance and ambidexterity [2], [12], [13], [14], [15], [5]. Moreover, some researchers concentrate on the antecedents of organizational ambidexterity [15], [5], [14], [1]. For example Jansen et. al. analyze the effects of formal (i.e., centralization and formalization) and informal (i.e., connectedness) coordination mechanisms on exploitative and explorative innovation and suggest that connectedness within units as an important antecedent for both innovation types [5]. Morgan and Berthon discuss the role of market orientation and generative learning as antecedents of exploitative and explorative innovation strategies [14]. Yet, despite the growing number of researches trying to find the possible answers to the question of how an ambidextrous organization can be built, antecedents to create an ambidextrous organization are less clear.

Thus, in this study we aim to discuss the impacts of ambidexterity on business performance and argue the role of market orientation as an antecedent of ambidextrous organization. We develop a model (Figure 1.) proposing that a certain market orientation -with responsive and proactive dimensions- might be an antecedent for simultaneous pursuit of exploitation and exploration innovation strategies for strategic ambidexterity. Several propositions are developed on this argument to be empirically tested in further researches.

1. Theoretical Foundations and Hypotheses

1.1. Market Orientation

Market orientation is a set of beliefs and abilities that puts the customer's needs first and focuses on generating, disseminating and using of the information about customers and competitors to create superior value for the customers [16], [17], [18], [19]. Market orientated firms are more systematic and anticipatory about gathering, interpreting and using the market information than other firms [20]. Many empirical investigations shows that being market oriented is associated with high performance [21], [22], [23]. However, market orientation is criticized to limit organizations to expand beyond their served markets [24] and restricts innovativeness since market oriented firms might extremely overemphasize their existing customers' needs [25], [26]. Thus, Narver, Slater, and MacLachlan [27] suggested a more comprehensive market orientation concept that consists of two sets of behavior. The first is responsive market orientation which means customer-led business [28] that "attempts to discover, to understand, and to satisfy the *expressed needs* of customers." [27]. The second is proactive market orientation "in which a business attempts to discover, to understand, and to satisfy the *latent needs* of customers [27]. A responsive market oriented firm focuses on the market information regarding the current product and market domain to understand and satisfy customers' expressed needs (i.e. the needs customer is aware) whereas a proactive market oriented firm discovers future needs or new market opportunities through market experiments to understand and satisfy customers' latent or emerging needs (i.e. the needs customer is unaware) [29], [1]. These two types of market orientation culture require two distinctive innovation types. Small adaptations to the products/services or refinements in such as quality and delivery time (i.e. exploitative innovations) might be enough to respond to the existing customer needs. On the contrary, completely new products/services or radical implications (i.e. explorative innovations) are necessary to lead the customer preferences. Thus, we implement a total market orientation with responsive and proactive aspects and presume that both market orientations might enable an organization to reconcile the tensions between strategically pursuing exploitative and explorative innovation strategies.

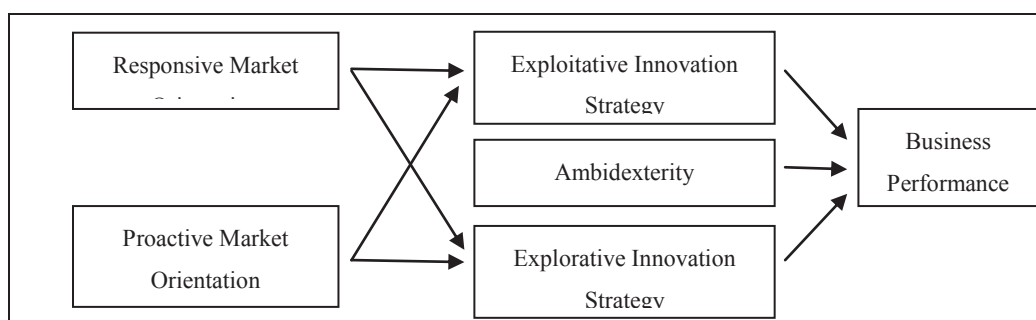


Fig 1. The Proposed Model of Relations

1.2. Market Orientation and Innovation Strategies

Partially following He and Wong [2], we employ exploitation versus exploration construct to innovation strategies and aim to discuss how firms strategically prioritize their investment in innovation with exploitative and explorative objectives. Through exploitative innovation firms exercise relatively small changes to their existing products and business concepts [4]. They aim at improving existing product-market positions [2] and are designed to respond the needs of existing customers or markets. Thus, exploitative innovations involve existing organizational knowledge [30], [5]. They can be described as the existence of refinement, production, efficiency and execution and can be associated with the

customer-led strategies [1]. On the contrary, explorative innovation represents substantial changes resulting in the implementation of completely new products or business concepts instead of existing ones [4]. They aim at entering new product-market domains [2] and are designed to respond to the needs of emerging customers or markets [30], [5]. Thus, they necessitate new knowledge and departures from existing skills [30], [8], [3]. Explorative innovations build on the presence of search, variation, experimentation, flexibility, and risk-taking and can be associated with lead-the-customer strategies [1].

In other words, exploitative innovations are designed to satisfy existing customers through exploiting existing knowledge and implementing slight adaptations to existing products or services which results in a customer-led culture. A customer-led firm may grasp and be tied to the demands of their served segments or markets and their customers' expressed need to be responsive which is associated with a responsive market orientation. Yet, a responsive market orientation forces manager to see the whole market from their customers' eyes. The "tyranny of the served market" [24] may dominate the firm and push it away from radical innovativeness.

Proposition 1: A responsive market orientation is positively related to exploitative innovation.

Proposition 2: The effect of responsive market orientation on explorative innovation is weaker than proactive market orientation

Contrary to exploitative innovations explorative innovations are designed to explore new market domains and customers' latent needs through exploring new knowledge and shifting from existing products or services and markets to completely new ones which result in a lead-the-customer culture. A lead-the-customer culture necessitates the application of explorative innovations to reveal customers' latent needs which is associated with a proactive market orientation. Furthermore, a proactive market orientation requires departure from existing knowledge and provokes organization to change its routines to enhance explorative innovativeness. Thus, a proactive market orientation is not well suited with the efficiency-oriented characteristic of exploitative innovation [1]. Therefore, we propose that;

Proposition 3: A proactive market orientation is positively related to explorative innovation

Proposition 4: The effect of proactive market orientation on exploitative innovation is weaker than responsive market orientation

1.3. Innovation Strategies and Business Performance

Based on our prior discussion, we use two distinctive types of innovation strategies in this study — exploitative and explorative innovation strategies. The effect of innovation strategies on business performance in the literature is confusing [31], [32], [33]. In general, innovation strategies are related to high levels of business performance [34], [35], [33]. On the one hand, as described above, exploitative innovation strategies give priority to efficiency and satisfaction of existing customers. While an organization refines its product or service quality and reinforces its strategic position to be responsive enough to its customers, it might be expected to realize a high level of performance. On the other hand explorative innovation strategies bring up the usage of new technologies and adaptation of radical change. If successfully pursued, they result in discovery and satisfaction of the customer latent needs or entering and positioning in the new markets. Thus, we propose that;

Proposition 5: Exploitative innovation strategy is positively associated with business performance

Proposition 6: Explorative innovation strategy is positively associated with business performance

Benner and Tushman define ambidexterity as the ability to pursue explorative innovation and exploitative innovation simultaneously [30]. Li, Lin, and Chu suppose that explorative and exploitative innovation are “the key indicators to organizational ambidexterity” [1]. We define ambidexterity as the joint pursuit of both types of innovation strategies simultaneously. Following the studies that conceptualize exploitation and exploration as orthogonal variables —thus simultaneously achievable— [36], [37], [38], [39] we argue that the interaction between both type of innovation strategies affects organizational performance positively.

Proposition 7: There is a positive interaction effect between explorative and exploitative innovation strategies on firm performance

2. Results and Conclusion

In this study, total market orientation —with responsive and proactive facets— is proposed as an antecedent of organizational ambidexterity which might enable an organization to engage in both exploitation and exploration innovations. It is also suggested that firms have a relative balance between these seemingly contradictory strategies might realize superior performance outcomes compared to the firms solely focus on one of them. Based on the propositions and argument above several further research and managerial implications can be highlighted.

First, our proposed model and relations should be empirically tested on a sample including organizations or strategic business units from a variety of industries and markets. Secondly, external contingencies such as environmental dynamism and competitiveness and internal firm contingencies such as resource endowments and firm’s scope can be added to the model as moderating variables. As control variables such as age and size can be added to the model to investigate the effects of firm characteristics. Thirdly, in order to have a better understanding of the long-term returns of ambidexterity in time (10 years or more), longitudinal studies might be conducted.

Despite its expected performance returns ambidexterity is hard to achieve. There are several managerial tasks must be performed. Organizational variables such as structure, systems, and processes should be designed to support the ambidexterity. Building and sustaining an ambidextrous organization is a strategic decision and requires top-level management involvement in all phases of planning and

implementation processes. The resource allocation between both types of innovation is the most explicit managerial task to sustain the balance between contradictory strategic priorities. Moreover, since exploitative and explorative activities are highly related to knowledge usage and learning, firms' human resources become significant for the ambidexterity. Unless spatial separation is not preferred to accomplish exploitation and exploration activities in different mechanisms, employees are supposed to determine the time that they spent on each activity. Thus, human resource management practices should be aligned to support appropriate employee behaviors.

3. References

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